

TESTIMONY OF

BLUE CROSS AND BLUE SHIELD OF VERMONT

FOR THE

**COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS
U.S. SENATE**

PRESENTED BY

**LEIGH TOFFERI
DIRECTOR OF GOVERNMENT, PUBLIC AND COMMUNITY RELATIONS
BLUE CROSS AND BLUE SHIELD OF VERMONT**

MAY 31, 2000

Mr. Chairman and members of the committee, I am Leigh Tofferi, Director of Government, Public and Community Relations of Blue Cross and Blue Shield of Vermont (BCBSVT). We provide health coverage to 175,000 Vermonters and have been providing such coverage for over fifty years.

I appreciate the opportunity to testify on the critical issue of the uninsured. I also want to take this opportunity to praise your leadership regarding this important problem.

The proposal you released earlier this year would take a major step forward in assisting our nation's uninsured. Survey after survey indicates that affordability is the prime driver in determining insurance status. The refundable tax credit included in your plan would make coverage significantly more affordable for low to moderate-income families, thereby enabling more Americans to purchase insurance.

Moreover, this proposal would reduce the inequity of our current tax system with regard to health insurance purchased in the individual market. The refundable tax credit would help make coverage more affordable for millions of Americans who receive no tax benefit simply because they do not have job-based coverage.

Second of all, I applaud your leadership role in encouraging Congress to adopt practical solutions to the issues that arise in healthcare today and to avoid proposals that would increase the cost of health insurance and therefore increase the uninsured. We believe the Association Health Plan provision in the House passed Patients' Bill of Rights (H.R.

2990) is an example of a misguided congressional attempt and we appreciate your opposition to this problematic provision. This legislation would exempt Association Health Plans from state insurance laws designed to keep premiums affordable, like Vermont's community rating rules. While good intentions drive the proposal, in the end consumers would suffer – the Congressional Budget Office believes 20 million Americans would see their premiums increase.

We wholeheartedly agree with your efforts to assure that the good, strong consumer protections that Vermonters have worked hard to pass will not be preempted by federal Association Health Plan legislation and that Vermont will retain its rightful regulatory role.

Blue Cross and Blue Shield of Vermont has a long history of supporting state reforms that help keep premiums affordable, including enactment of Vermont's state small group reform laws. We also have a long commitment to the uninsured.

As part of our commitment to the uninsured, we worked with the Blue Cross Blue Shield Association (BCBSA) last year to develop a program to address this challenging public policy problem and we released our proposal in February of 1999.

During my testimony, I will describe our two-part program:

- First, Congress should enact targeted tax-based solutions to address the problem of the uninsured.
- Second, Congress should adopt a “new litmus test” to reject legislation that would increase health care costs and, consequently, increase the number of uninsured.

I. Congress Should Enact Targeted Tax-Based Solutions To Address The Problem Of The Uninsured

Scope Of The Uninsured Problem:

Before devising its uninsured proposal, we gathered and analyzed the latest information on who the uninsured are and why they lack coverage. While the uninsured fall into very different geographic, age, and racial/ethnic categories, they do have some common characteristics. One of the most significant subgroups of the uninsured are working Americans.

According to a 1997 study from the Kaiser Family Foundation, 73 percent of uninsured adults are either employed or married to someone who is employed. The working uninsured tend to be those who work in low-paying jobs, those who work for small firms, and those who work in part-time jobs or in certain trades:

- ***Low-Wage Workers.*** The cost of health insurance can be prohibitive for low-wage workers who must purchase it on their own or pay a significant share of an employer-sponsored health plan. Almost half (43.5 percent) of the uninsured are in families earning less than \$20,000 a year, and 73 percent of the uninsured are in families earning less than \$40,000. Moreover, low-income workers are less likely to have access to coverage on the job.
- ***Workers in Small Firms.*** The working uninsured are likely to be employed by firms with fewer than 25 employees – 43% of the uninsured employed in the private sector work for firms with fewer than 25 employees. They are also likely to be self-employed or dependents of such workers. One of every four self-employed individuals and nearly 35 percent of workers in firms with fewer than 10 employees are without coverage.
- ***People In Families with Part-Time Workers.*** Since employment-based coverage is usually only provided to full-time workers, the risk of being uninsured increases for people who only work part-time. More than one-quarter of people in families with only part-time workers are uninsured.

Targeted Tax-Based Reforms That We Urge Congress To Enact:

We believe Congress needs to adopt targeted reforms that will reduce the existing number of uninsured. Extending health coverage to those without it can be achieved

quickly and most effectively through legislation that is aimed at the specific subgroups of the uninsured, such as low-income workers, and that builds on the existing employment-based health system.

We believe these targeted solutions should include:

- ***Tax Credits To Small Employers For Their Low-Income Workers.*** Employees in small firms are more likely to be uninsured than those employed by larger companies. The primary reason for this higher uninsured rate is that small firms are more likely to have a larger share of low-income workers than larger firms. About 42 percent of workers in small firms (0-9 employees) earn less than 250 percent of the poverty level, compared to only 27 percent of employees in firms with 100 or more employees. Offering tax credits to small firms for their low-income workers would decrease the number of uninsured by making health coverage more affordable for small businesses and their low-wage employees.

Focusing on low-wage workers as a subset of those in small firms targets those most in need of assistance. Workers in small firms with a high proportion of low-wage workers are half as likely to be offered health coverage as workers in small firms with high-wage workers. Only 38 percent of small businesses with low-wage employees offer health coverage compared to 78 percent of small businesses with high-wage employees. An analysis by the Alpha Center (see attached graph) underscores the importance of focusing on low-wage workers in small firms. It shows that low-wage

workers (e.g., those earning less than \$20,000) have considerably lower rates of employer-sponsored health coverage than those with higher wages and illustrates that low-wage workers in the smallest firms are least likely to have employer-sponsored coverage.

By limiting the tax credit to only low-income employees of small businesses, the proposal would avoid subsidizing those who should be able to afford coverage on their own (e.g., lawyers working for a small firm).

Employers would administer the tax credit on behalf of qualifying employees. Because cash flow is critical for small firms, the proposal envisions that employers would provide the credit in the form of reductions in the withholding taxes that the employer would normally pay. The administrative burden of such a system on the employer would likely be very low since most employers contract payroll functions to outside firms that are easily able to administer such credits on behalf of employees.

Offering tax credits to small firms with low-income workers also has the advantage of building on the successful employer-based health coverage system. The majority of Americans receive health coverage through an employer. By building on the current employer-based system, BCBSA's tax credit proposal could be implemented immediately.

Other parts of our proposal include:

- Full Tax Deductibility For The Self-Employed
- Full Tax Deductibility For People Without Employer-Sponsored Coverage
- Federal Grants for Initiatives That Expand Coverage or Provide Care to the Uninsured

We believe this proposal, which is based on tax credits and deductibility to targeted subgroups of the uninsured, is the most appropriate way to address this problem. Our proposal also has several important advantages:

- It Could Be Enacted Quickly
- It Would Be Simple To Implement
- It Would Make The Best Use Of Scarce Resources

II. Congress Should Adopt A “New Litmus Test” To Reject Legislation That Increases Health Care Costs And The Number Of Uninsured

In addition to looking at tax-based solutions to the uninsured problem, Congress should consider other ways to preserve the affordability of private health insurance. We believe Congress should adopt a “new litmus test” to reject legislation that would increase premiums and, consequently, the number of uninsured. Congress is currently considering a series of legislative proposals that would increase health care costs, hurt consumers, and ultimately increase the uninsured. For example:

The Patients' Bill of Rights Legislation would increase costs a number of ways, including:

- *Expanded Liability of Employers:* The Patients' Bill of Rights legislation passed by the House would impose new, unpredictable, and unlimited liabilities on both health plans and employers that would increase premium costs by 3% to 9%. Employers – including small businesses – could be sued directly for voluntarily doing the right thing: providing health coverage for their employees. As a result, employers would be compelled to reduce benefits, shift more costs to their employees, or discontinue offering coverage altogether. In fact, a new survey by Hewitt Associates said one-third of large companies would drop benefits for their workers if they were subject to these lawsuits.

- *AHP Exemptions From State Law:* We are particularly concerned about a provision in H.R. 2990 that would exempt Association Health Plans (AHPs) from state regulation. As I mentioned before, 20 million Americans would experience premium increases as a result of this legislation. Why? Because these organizations would “cherry-pick” the healthiest. In addition, history has shown that when these organizations were exempt from state law (between 1974 and 1983), consumers and providers were left with millions of dollars in unpaid medical bills. We applaud the leadership role you played with Senator Nunn (D-GA) that led to the Department of Labor finally closing that dangerous loophole. We encourage you to continue to urge Congress to consider the negative consequences - - in terms of both cost and suffering

on workers and their families - - of re-opening that regulatory loophole through AHP legislation.

- *Expensive Dual Regulation:* The numerous detailed provisions in the House-passed Patients' Bill of Rights would require excessive micromanagement by the federal government and would create a confusing web of duplicative standards since many of the rules are already required by states. The result: confusion for consumers because they may now have to call the federal government for help on certain issues instead of their local government, significant administrative burdens on health plans, and more paperwork in the health care system driving up health care costs for everyone.

Antitrust Legislation Would Exempt Providers From Antitrust Law, Leading To:

- *Increased Premiums For Consumers:* Physicians, pharmacists and other providers could collectively agree to boycott health plan contracts in order to increase fees. The Congressional Budget Office (CBO) estimates increases of 15%. The Federal Trade Commission (FTC) and the Department of Justice (DOJ) have seen increases of 20-40% in their investigations of previous boycott situations. These higher fees would translate into higher premiums for consumers.
- *Increased Balance Billing For Consumers:* The ability of providers to collectively boycott contracts may leave health plans without signed contracts – and without signed contracts, members would not have protection from balance billing charges by providers.

- *Decreased Quality Assurance:* Contract standards involving credentialing, Board certification or other quality assurance activities could be boycotted or health plans may be forced to delete these important consumer protection provisions.

The Senate passed Patients' Bill of Rights did not include many of these problematic provisions. We encourage you to remain strong in your advocacy of consumers on these important issues and to retain the Senate passed provisions.

III. Conclusion

Expanding the number of Americans with health coverage should be our nation's top health care priority. No single solution will solve the uninsured problem, but the targeted solutions that we have suggested would effectively reduce the number of uninsured.

We urge Congress to take a series of actions to reduce the number of uninsured, including providing tax credits to small firms for their low-wage workers, full tax deductibility for the self-employed and those without access to employer-sponsored coverage, and federal grants to states to fund targeted initiatives to expand health coverage. We also believe Congress should reject legislation that would significantly increase health care costs. Increasing health care costs will only increase the number of uninsured.

Thank you for the opportunity to speak to you on this important issue.